

September 18, 2024 - Online Briefing for Analysts and Institutional Investors

Key Questions and Answers

(Some parts of the contents have been added or modified for easier understanding.)

Q: Artner is not set to meet its Medium-Term Business Plan target of 1,600 engineers. About how many more engineers do you need to achieve your financial results targets?

If the current pace continues in the second half of the year, will the pace be adequate for achieving your targets?

A: The situation with the 1,600-engineer target is as follows. In the remaining months of this fiscal year, there are two categories for possible hire: new graduates who will join in October and general hires who join every month. The negative factor is the turnover rate. It will all depend on how we can bring down the turnover rate and increase the net number of engineers. Given the large shortfall, and based on the categories in which we can realistically increase engineers, achieving the Medium-Term Business Plan target for net sales will be quite challenging. However, as the unit price of engineers is rising more than forecast, profits and operating margin are currently exceeding their forecasts in the Medium-Term Business Plan.

Q: How many new graduates have you secured so far for entry into the Company in April of next year?

A: Our target for April 2025 new graduate hires is 200 engineers. So far, approximately 80% of openings have been filled. While only a few months are left until the end of March, we will continue to follow up with schools, labs, and other institutions and conduct recruitment activities to fill the remaining 20%, or approximately 40 engineers.

Q: I believe a new Medium-Term Business Plan will start next year. Since the plans and strategies are progressing smoothly, I am sure that you can grow sufficiently by continuing with these plans and strategies. However, can you tell us what additional items you intend to incorporate into the next Medium-Term Business Plan?

A: We plan to make the Medium-Term Business Plan public around March 2025. The details are now being refined. Securing engineers has been an issue in previous Medium-Term Business Plans and is anticipated to become even more challenging next fiscal year and beyond. In view of these circumstances, we aim to develop strategies that address or further build on both our weakness in securing engineers and our strengths in being a group of engineers providing high added value, and by extension, having high profit efficiency. A key point will be increasing the ratio of our contracting business, which currently makes up about 10% of our businesses. By strengthening our contracting business, we will create a system that will allow the use of various channels for acquiring engineers and compensate for our weakness in securing a sufficient number of engineers.

In addition, to further improve the earnings ratio, we will continue our sales strategy of supplying more engineers to our main clients, which are automobile manufacturers and auto parts manufacturers, and secure high profitability. We intend to create a Medium-Term Business Plan that incorporates these elements.

Q: Since overall wages have been increasing, will you likely be able to maintain the rise in the unit price of engineers at the current pace for the foreseeable future?

A: The factors contributing to the rise in the unit price of engineers are the momentum for wage increases in society, along with our aggressive and proactive sales efforts to efficiently assign and transfer engineers to higher value-added projects and thereby raise the unit price. These two are considered as factors. While we hope the momentum for wage increases is not a temporary phenomenon, we more or less view it as a passive factor. Through the second factor, that is, continuing proactive strategies and aggressive sales efforts that promote engineer assignments and transfers to raise the unit price of engineers, we expect to continue seeing significant rises in the unit price in the following fiscal years.

Q: Assuming that the unit price of engineers can be increased by 4 to 5% annually, which will be a stronger driver: the momentum for wage increases or proactive activities?

A: Our aggressive sales efforts are a significant driver, so you can continue to expect rises for the following fiscal years.

Q: I assume that engineer dispatching services are affected by technology trends. For example, what is the situation with clients in industries related to electric vehicles (EVs)?

A: Our main clients are automobile manufacturers, auto parts manufacturers, and semiconductor manufacturing equipment manufacturers. They make up our top ten clients by net sales. Based on their trends, we anticipate the very low risk of decreasing demand for engineers to continue in the following fiscal years. It all depends rather on how well we can provide engineers for projects where there is strong demand for them. Therefore, we recognize the critical importance of the ongoing challenge of securing engineers who meet the client's satisfaction, in both quality and quantity.

Q: I believe Artner recruits and fully educates new graduates. Is it your understanding that the Company is sufficiently addressing the various challenges, such as the utilization, wishes, and technical capabilities of engineers after they have joined the Company?

A: One of the characteristics of our business model is that a very high percentage of our engineers are assigned to advanced development and product development of the development process, or the

upstream. This includes advanced semiconductors that are compatible with EVs, fuel cell vehicles, fuel cells, automated driving, and generative AI, as well as the semiconductor manufacturing equipment projects that produce them. The level of engineers requested for these projects is extremely high. Additionally, about 20 to 30% of our new graduate hires possess the skills necessary to meet the demands of these projects. Therefore, we forecast that engineers who have even higher skillsets will continue to be requested in the following fiscal years. Accordingly, how we will meet the quantity and quality demanded by our clients, not only through the recruitment of new graduates but also through general recruitment, will be a critical element in maintaining our current position.